JOINT ECONOMIC COMMITTEE
Senator Sam Brownback, Senior Republican Senator

Opening Statement of Senator Sam Brownback
Hearing on the Economic Outlook
Joint Economic Committee
September 24, 2008

Mr. Chairman, we are at a crossroad. We face the most monumental economic decisions in modern time. This is not the time to posture in pursuit of political advantage. Two things are certain: Inaction is not an option, and we have to get this right. To date, we have dealt with symptoms of the crisis. We must now deal with the cancer itself.

The American people are angry. They have every right to be. To most, this looks like just one more example of the government making them pay for someone else's failures. To paraphrase President Reagan, they want the government to walk by their side and stop riding on their back.

This is at its core about the interaction of Wall Street and Main Street. Absent action, if there is a prolonged period in which credit stops flowing, there is a severe adverse threat to the financial conditions of every household, every American family, and every American business, small and large.

This is not an abstract fear. I am sure that all of us on this committee have heard real world examples of how this crisis is hitting the real economy from our constituents and colleagues. For example, a major automobile seller was unable to obtain funding at workable rates to finance sales of its automobiles. Since August 2007, 87 lenders have exited or temporarily stopped making student loans backed by the Federal government. If your child is counting on a student loan for next semester's education, it could be tough to get if things continue the way they have been going. 67% of small business owners, who are the engines of job creation in our economy, report that their businesses have been affected by the credit crunch. If we have a prolonged period in which credit flows virtually dry up, we can count on failures of businesses to be able to make payrolls, employ workers, and continue operations. Failure to act can result in severely depressed economic conditions.

So, I believe that it would be irresponsible to not act. But, I also believe that we must act responsibly. Acting responsibly includes looking out for taxpayers as we consider devoting large amounts of taxpayer funds to resolve matters in credit markets.

First, Chairman Bernanke, I would like you to explain what you feel would happen if we did not act and credit flows remained frozen for a protracted period.

Second, I would like you to explain how you think Treasury's proposal would find true "hold to maturity" prices of the distressed assets that are now being valued in illiquid or non-existent markets at "fire sale" prices, at best. If Treasury pays too much for the assets, taxpayers lose. If it doesn't pay enough, then banks end up taking severe write-downs, must seek more capital, and are moved toward selling more assets at fire sale prices.

Third, I would like you to help me understand why it would not be prudent to protect taxpayers by inserting into Treasury's plan requirements that those who sell troubled assets provide the taxpayers with preferred stock warrants. Why, for example, could we not have Treasury buy troubled assets at fire sale prices, inject capital into troubled institutions, and obtain preferred stock warrants? We used warrants when the Federal government backed Chrysler debt.

Fourth, I would like you to help me understand why we should consider Treasury's proposal of up to $700 billion of value. Would there not be merit in considering an initial set of purchases of certain classes of troubled assets in the amount of, say, $100 billion? Then, we could evaluate results, and move on with $100 billion of purchases of other of classes of troubled assets. Why would it not be useful to attack the problem in a sequence of moves, rather than just one very large authorization? At the very least, we must be sure that there is adequate transparency and oversight in whatever Treasury ends up doing.

Fifth, I would like to know whether you believe that Treasury's proposed plan has any room for loan modifications by the Treasury on troubled mortgages. The root cause of problems in credit markets and in the economy seems to be declining home prices. And, to help stabilize those prices, wouldn't it be advantageous to have Treasury get into the mortgage-backed securities, separate out the troubled loans and work out those that can be worked out. It seems to me that that would help reduce foreclosures, meaning fewer properties placed on an already over-supplied market, and thereby help arrest declines in home prices.

We have a crisis in confidence in financial markets. And we have crisis of confidence of the American people in their government. When an American family seeks to borrow money to improve their home or start a business or when a small business looks to borrow to expand operations, they have to explain in detail what they are going to do with the money, what the collateral is, and how they are going to pay it back. I don't think the American people are unreasonable in asking the same questions of this proposal.

I appreciate the help that I anticipate you will give me in understanding how best to resolve the stresses in financial markets that pose a very real adverse threat to our overall economy. Again, I believe that it would be irresponsible not to act. But, I also believe that we must act responsibly and get this right, including protection of taxpayers who we are putting at risk.